515.221.3000 telephone
800.860.6180 toll-free
515.221.3010 facsimile
1500 NW 118th Street
Des Moines, IA 50325
IowaCreditUnions.com

April 2, 2009

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Secretary Rupp:

I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA) Advanced Notice of Proposed Rulemaking with respect to its corporate credit union regulation, NCUA Rules and Regulations Part 704. The Iowa Credit Union League (ICUL) is the trade association representing 140 Iowa credit unions. ICUL's comments on the proposed changes are set forth below.

The concept of restructuring the Corporate Network and its business model is not a new concept and recent economic events have brought more light to the need for reexamination of the network. The unprecedented economic downturn causing the current credit and liquidity crisis prompted actions by the NCUA. The actions taken by the NCUA were designed to address liquidity, capital needs, and member confidence. The most recent of the NCUA's actions is an open forum for the gathering of information and ideas from the credit union industry through the formal process of issuing an Advanced Notice of Proposed Rulemaking and Request for Comment (ANPR).

Credit unions did not create the current financial crisis but have certainly been impacted by it. As an industry, we need to work together to ensure the longevity of credit unions long into the future by acting with great consideration and diligence when examining potential changes to the corporate network. The new regulation must establish rules that promote safety and soundness but do not take away the corporate credit unions' (Corporates) ability to be competitive in the marketplace and to add the best value to member owners.

The ANPR addresses several key issues affecting the corporate network that could significantly redefine the corporate charter. The following comments serve as ICUL's responses to the issues raised in the ANPR.

1. THE ROLE OF CORPORATES IN THE CU SYSTEM

Payment System

ICUL believes that payment system services cannot be separated from other services. There are alternative ways in addressing the risk associated with a corporate credit union's ability to fund settlement activity. The risk is associated with liquidity concerns around overnight and intra-day settlement needs.

Corporates continue to be the primary financial institution for many credit unions and are valued to help mitigate payments risk and ease operational activities. The services provided by a primary financial institution must be all-inclusive in providing settlement services, payment services, and investment and lending options. If one of these services is excluded credit unions would have to move outside of the corporate network to find the services and may find challenges in eligibility for services as well as prohibitive costs.

In providing payment and settlement services, operational risk should be quantified and supported by adequate capital. Corporates should ensure appropriate amounts of capital to support underlying risks associated with all lines of business, including: settlement services, payment services, deposits, and lending. Appropriate risk mitigation strategies and capital levels can be verified through the regular examination process.

In time, Corporates could work together to provide payment services. If the current system is condensed from two tiers to one tier, Corporates could join together to form a CUSO to handle the operations of the payments. That way Corporates would only need to offer and settle products - not necessarily run the operations. This is something that could be decided among the Corporates. Many Corporates have developed very competitive in-house services and expert staffs that could be expanded to other Corporates. The consolidation of payment systems within the network may improve profitability, increase capital accumulation and reduce fees to members.

Liquidity and Liquidity Management

Liquidity must continue to be a core service of the Corporate System.

The current, unprecedented economic decline has caused a credit and liquidity crisis that far exceeds any that has been incorporated into planning and modeling scenarios for financial institutions. Corporates have managed liquidity well in the past and continued to provide solutions to members to assist in their liquidity needs. Even during the most recent economic decline Corporates have successfully weathered the decreases in deposits without selling investment securities due to an illiquid market.

Today's environment has revealed a need to more closely monitor and manage liquidity and cash flow as a Corporate Network. Corporates are required to maintain and monitor liquidity plans which have been effective. The current economic downturn has highlighted the need to employ additional avenues for the facilitation of the liquidity role. Corporates should consider more complex liquidity planning that includes several sources for borrowing and appropriate cash reserves. Corporates need to estimate future cash flows, incorporating a "margin of error" and securing adequate external borrowing sources.

Corporates should properly designate and isolate a portion of liquid funds for daily settlement that would take into account daily, monthly, and annual settlement activity levels. Corporates should require minimum reserve balances from member credit unions relative to their settlement activity that can be adjusted periodically.

Field of Membership Issues

The change to national fields of membership (FOMs) provided additional competition as well unintended risk. Although natural person credit unions benefited from better rates and a wider variety of product offerings, Corporates were also slower to accumulate capital. There was a shift in the cooperation and trust of the Corporate Network as they became competitors. This lack in cooperation and trust led to waning support of shared resources including services provided by U.S. Central.

One approach presented in the ANPR to reduce competition is to eliminate national FOMs and to "regionalize" Corporate membership. An alternative for consideration would be for natural person credit unions to be required to capitalize a Corporate in order to receive services. In order for this concept to work, capital requirements would need to be similar from Corporate to Corporate.

Expanded Investment Authority

Corporates are currently allowed to purchase only highly rated securities. Regulations had been adequate until the current economic downturn. Expanded investment authorities available to certain Corporates vary based on level and include additional investment options that provide diversification and potentially increased yield. These additional authorities also come with additional risk exposure.

Although the regulations give specific authorities based upon a Corporate's capital, risk profile, and expertise, more guidance is needed for appropriate and increased capital levels for expanded authorities.

The NCUA should consider more extensive reviews of Corporates with expanded authorities. This is in line with risk based examinations of the Corporate Network.

Structure: Two-Tiered System

The current two-tiered structure of the Corporate System centralizes resources and talent but also creates strains on capital accumulation. In time, the Corporate Network should go from two tiers to a single tier.

The strains on capital occur as the capital risk assumed by U.S. Central is considered. Current regulations call for a lower capital requirement for a wholesale corporate credit union; however, a wholesale corporate credit union holds a larger share of the credit risk. ICUL believes there is value in moving towards a structure where certain resources and expertise remain aggregated at the wholesale level but investments occur at the individual Corporate level.

Irrelevant to the number of Corporates are several services and functions that could be consolidated for greater efficiency. This consolidation could be accomplished through a CUSO. Some examples of functions that could be centralized include: payments, core processing, risk modeling, call centers, and investment brokerage services.

2. CORPORATE CAPITAL

The Corporate Network should move towards a system similar to Basel standards for determining capital requirements. Core capital (Tier One) should be defined in line with other financial regulators as retained and undivided earnings (RUDE) and perpetual paid-in capital (PIC). A core capital minimum requirement of four percent should be obtained by year end 2010. The Corporate Network can build retained earnings over several years by consolidating certain functions/services, paying off borrowings, shrinking member deposits, and possibly obtaining perpetual PIC as necessary. Corporates operating with a higher risk profile will be required to maintain a higher core capital ratio.

The current requirement for measuring capital levels using 12-month daily average net assets is appropriate as it considers seasonal fluctuations in assets.

Membership capital shares were intended to provide funding for products and services and continue to serve a purpose in providing capital in addition to PIC. Network wide current membership capital shares are needed to support capital levels. When a Corporate reaches the revised requirement for core capital the membership capital shares could be returned to members at the Corporate's discretion without the three year notice period. Distribution of membership capital shares would continue to require NCUA approval.

To date, membership capital share deposits have been tied to asset size and have carried a cap. A better way to determine membership capital levels may be to determine a usage calculation for members. Thus, the credit unions that are the heaviest users of corporate products and services would also be the highest contributors of capital.

Risk based capital regulation should be implemented to create parity with other financial institutions.

3. PERMISSIBLE INVESTMENTS

Liquidity must continue to be a core service of the Corporate System. For this reason Corporates should focus on liquid and short-term investments. Corporate balance sheets require wider ranges of short-term investment offerings than those of natural person credit unions.

The following investments are specifically referenced in the ANPR and should not be permissible for Corporate credit union investments: collateralized debt obligations, net interest margin securities and subprime asset backed securities.

4. CREDIT RISK MANAGEMENT

Current Corporate regulation places too much emphasis on ratings of investment securities. This was used as the primary measurement for the evaluation of risk associated with investments until recently. These ratings falsely identified the risks associated with certain investments in Corporates' portfolios. Ratings were not the only measurement used in evaluating investment securities. Internal modeling, historical performance of asset types, and industry experts' forecasts were also used in the evaluation of purchases of investment securities. Until the rating agencies are more heavily regulated and gain more credibility, rating agency information on securities should not be the primary metric.

Rules should be established to limit and monitor cash flows and duration of investment securities to minimize deterioration of credit spreads similar to those that have occurred in the past two years. Concentration risks in certain sectors and diversification should be a primary focus for Corporates' investment portfolios and should be well defined in the regulations. Independent third parties as approved by regulators should perform evaluations of credit risk in Corporate credit unions' portfolios. This should not be required for all Corporates as those with limited exposure and investments would be incurring undue additional expenses.

5. ASSET LIABILITY MANAGEMENT

Corporates with a certain percentage of assets in investment securities should model projected net interest income. This should not be required for all Corporates as those with limited exposure and investments would be incurring undue additional expenses. Corporates should continue to monitor NEV as part of their monthly risk modeling and monitoring processes.

Corporates with a certain percentage of assets in investment securities should perform modeling and testing of credit spread increases.

6. CORPORATE GOVERNANCE

Each Corporate's minimum qualifications of experience for board and committee members should be relevant to the services and activities of the particular Corporate. Each Corporate should be allowed to decide the following as is suitable to their business: what portion of the board will be comprised of outside (non-member) directors, appropriate term limits, and compensation of directors. In regard to Corporate senior management salary and benefit information, Corporates should follow the same standards as credit unions.

Thank you for the opportunity to comment on the ANPR. Should you have any questions, please feel free to contact me at (515) 221-3002.

Sincerely,

Patrick S Jury

Patrick S. Jury
President/CEO
Iowa Credit Union League